

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR SERBIA

**REPORT ON THE INVITATION
TO THE PUBLIC TO COMMENT**

1. INTRODUCTION

In accordance with the EBRD Public Information Policy (PIP), the draft Strategy for Serbia was posted on the EBRD website in English and Serbian for 45 calendar days, starting from 13 December 2017 to 26 January 2018. The previous Strategy was also made available on the website in English and Serbian at <http://www.ebrd.com/serbia.html>.

Information about the public consultation process was posted on the EBRD's dedicated webpage "Have your say", which highlights the latest opportunities for the public to comment on the Bank's policies and strategies under review. In addition, targeted notifications of the consultation process were sent to local and international civil society organisations (CSOs) that have expressed interest in the Bank's work in the country. The start of the review process was also advertised through social media platforms (e.g. Facebook and Twitter).

In line with the Bank's increased efforts to involve civil society at an early stage of country strategy development, the EBRD organised a consultative meeting with civil society organisations on 23 October 2017 in Belgrade to gather civil society's feedback during the preparatory phase leading to the draft strategy. The consultation provided a platform for dialogue between civil society representatives and EBRD staff involved in the Strategy preparation process.

The consultative meeting was chaired by the Head of the Resident Office in Serbia. The workshop attracted civil society representatives from five local civil society organisations. The summary of the meeting and list of participating organisations are provided in the Annex to this report.

During the consultation period no comments were received by the Bank in written format.

Summary of EBRD meeting with civil society – 23 October 2017, Belgrade

On 23 October 2017, the EBRD Resident Office in Serbia hosted a workshop with civil society representatives in Belgrade. The event was attended by participants from five local civil society organisations, including NGOs working on good governance, sustainable development, women in business and social entrepreneurship. Following a presentation on the Bank's activities and key operational priorities in the forthcoming EBRD Strategy, the floor was opened for a roundtable discussion on a wide range of topics, including transparency and business climate, entrepreneurship and access to finance, social and environmental issues, as well as the challenges of EU accession.

Participants welcomed the Bank's approach in consulting civil society at an early stage of the country strategy process and encouraged the Bank to pursue dialogue with civil society as part of institutional decision-making processes. CSO representatives furthermore broadly endorsed the main operational priorities set forth in the upcoming Strategy for Serbia.

Transparency and good governance

Transparency and corruption are main concerns for civil society in Serbia. Although public authorities are perceived to have made progress over the last years in tackling the problem, corruption remains a serious issue of concern and is regarded by citizens as a widespread phenomenon. In this regard, Serbian citizens rank corruption as the most important problem facing their country after unemployment and poverty/low living standards. CSO representatives claim that corruption occurs at different levels and across sectors, with public resources being spent in a preferential manner including through opaque public procurement. They also consider that the laws against corruption are not being properly implemented and that the fight against corruption is mainly declaratory, with few allegations of corruption progressing into judicial decisions – in particular as regards high level corruption.

Moreover, participants claimed that the lack of transparency at the government decision-making level persists, including in the budgetary process, public procurement, and state aid. Laws are allegedly passed without due public consultation, often through “extraordinary” procedures, and the lack of transparency extends to monitoring the design and implementation of all projects, including public-private partnerships (PPPs), transport and energy projects.

In response, the EBRD assured participants that it will promote improved public governance and business climate through its Investment Climate and Governance Initiative (ICGI) - including by developing eGovernance, enhancing commercial mediation, strengthening the PPP commission, improving procurement practices, promoting competition and fostering integrity. The Bank has signed an ICGI Memorandum of Understanding (MoU), thus expanding key policy advisory projects to engage, among other initiatives, in policy dialogue to provide PPP assistance and strengthen regulatory capacity on procurement. Moreover, the EBRD intends to liaise with bilateral donors, civil society and business chambers to advance business climate and governance.

Business climate, entrepreneurship and access to finance

According to civil society representatives, the political will to fight corruption and organised crime is necessary to generate improvements in the business environment in Serbia. CSOs consider that significant changes are required to improve procedures for starting and closing a business, for obtaining the necessary permits and licenses, as well as for corporate governance standards. According to civil society, the lack of corporate governance standards, in particular related to skills in general and financial management, constitutes a main impediment to private sector development. Also, the selection of SOE management is allegedly not transparent and the rules prescribed by legislation are mostly not followed, with most CEOs hired on a temporary basis for several years, potentially undermining the quality of decision-making.

In addition, according to several studies and reports by CSOs, SMEs still operate in a difficult business environment and insufficient access to finance remains an important obstacle for growth in Serbia. Women entrepreneurship rates are lower than those of men, with only 16 percent of self-employed women compared to 31 percent of men. CSOs claim that the lacking regulation regarding microfinance is one issue which is hindering women-owned businesses from accessing finance. In addition, although key legislative elements for promoting and enforcing gender equality are in place according to CSOs, there is an alleged under-representation of women in the labour market and a notable pay gap.

To tackle these issues, the EBRD will foster the competitiveness of the Serbian economy by enhancing the capacity of private sector companies. The Bank will leverage its Advice for Small Businesses (ASB) tools and Financial Institutions (FI) products to improve SME internal capacity, governance, financial performance and investment readiness, including through the Enterprise Expansion Fund (ENEF) and the EU competitiveness facility. The Bank will also support select SMEs in scaling-up through its “Blue Ribbon” programme. It will assist bankable corporates in growing value added products, deepening domestic value chains and domestic backward linkages, as well as support new technologies and innovation, benefitting from digital switchover and broadband penetration in ICT.

The Bank will moreover support selected SOE restructurings and commercialisation, including, where possible, privatisations and concessions/PPPs. It will help enhance PPP capacity at national and municipal level, including through PPP certification programmes and seminars. Moreover, the Bank will promote rail sector reform (including corporate governance, productivity improvement, tariff reform) and expand municipal and environmental infrastructure (MEI) activities to more small and mid-size municipalities, including through frameworks.

Social and environmental issues

Energy sustainability, waste management, water and air pollution, and unsustainable forest management are among the main environmental issues raised by civil society stakeholders. In particular, the energy sector (using funds from International Financial Institutions - IFIs) is allegedly focused on short-term use of coal rather than long-term conversion to sustainable energy production. Regarding social issues, CSOs claim that the lack of jobs providing liveable wages leads to a continuing flow of productive workforce leaving Serbia. According to participants, local regions are particularly cut off due to the lack of rail and road

connections, and they recommend that IFIs should consider providing more financing for local rail connections as a sustainable solution. As such, civil society stakeholders consider that IFIs should place more focus on social rather than just commercial returns.

In response, the EBRD will continue to support Serbia's green economy by fostering energy efficiency, enhancing renewable energy, and promoting sustainable practices. The Bank will provide intermediated financing through the Green Economy Financing Facility (GEFF) and other credit lines targeting SMEs to complement existing Green Economy Transition (GET) programs for multi-purpose buildings and engage in energy efficiency and energy policy reforms dialogue. It will also finance low GHG emission technologies (e.g. windfarms, biomass, district heating, small hydropower plants) to improve the energy mix and support projects that increase climate resilience in transport. Moreover, the EBRD is currently supporting improvements of the Electric Power Industry of Serbia (EPS) through the Corporate Governance Action Plan and stakeholder engagement plan, as well as restructuring.

EU Accession

CSOs consider that Serbia has made progress on key reforms geared towards accession to the EU. They claim that both the legislative and institutional frameworks have been improved, enabling the strengthening of democracy, rule of law, and protection of human rights and fundamental freedoms. Progress in particular has been made in areas such as the functioning of institutions, the judiciary, and public administration reform. Nevertheless, civil society representatives claim that serious challenges remain in all of the above-mentioned areas, and especially the rule of law. CSOs also maintain that Serbia needs to strengthen its administrative capacity through improving the resources and operational capacity of public authorities to ensure that EU standards are met.

The EBRD acknowledges the role of EU accession as key driver for reforms in Serbia, including as regards enhancing interconnectivity. In line with EU accession reforms, the EBRD will promote improved transport infrastructure quality and 'soft' connectivity to increase regional integration, including harmonisation of legislation, establishment of a regional chamber of commerce and digital integration (SEELink, and business registry portal SBRA). The Bank will furthermore work with the EU and the EIB on expanding access to finance for SMEs and promote reforms to improve the business environment in the country as part of the EU accession requirements.

List of participating organisations to the consultation meeting in Belgrade on 23 October 2017

1. Transparency Serbia
2. Association of Business Women
3. Center for Civil Society Development Protecta
4. Business Net Serbia
5. Centre for Ecology and Sustainable Development